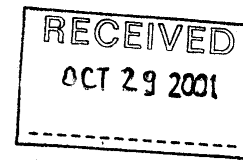




COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

October 29, 2001



MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – While Most Taxpayers Received Accurate
and Timely Notification of Their Advance Refunds, Millions Did
Not

I am responding to your draft report entitled "While Most Taxpayers Received Accurate and Timely Notification of Their Advance Refunds, Millions Did Not." As noted in your draft report, we had limited time to implement the provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 requiring the issuance of advance refunds to taxpayers as rapidly as possible.

As a preface to my comments below, let me note that I am extremely proud of the IRS' performance with regard to providing advance refunds. In a very short period of time, we delivered notices and checks to millions of taxpayers with very few errors. I appreciate the analysis you undertook to help us keep the process on track. The IRS rose to the challenge in this case as the following discussion shows.

To issue notices to more than 120 million taxpayers and to compute, account for, control, and produce advance payment checks, we had to modify, test, integrate, and put into production IRS computer programs and systems. This was achieved with application of maximum feasible resources. We placed this as one of our top priorities in terms of management attention. Our dedicated employees developed key programs and processes in record time. As a result, we achieved significant accomplishments for the IRS by delivering timely and accurately the key provisions. Delivery of notices and checks to taxpayers began early July 2001.

I appreciated your auditor's efforts in promptly bringing their findings and recommendations to our attention. As a result of your identification of a problem with the calculation of the advance refund amount, we were able to correct the problem quickly. Through this early identification we made the correction to our programs before we issued checks to 535,000 for \$117.6 million more than the amount allowed by law.

In addition, we issued a correction notice (Notice 1277) on August 10 to affected taxpayers.

The report is accurate in reporting management's response to the seven recommendations. Due to the prompt notifications by your staff, the IRS took timely corrective action to implement recommendations 1 through 6. I appreciate that you understand and accept that we did not implement recommendation 7 to minimize the risk of errors occurring due to additional changes to the programming used to generate notices. We appreciate the oversight and assistance your office provided in implementing the advance payment refunds. We look forward to continuing to work with your staff on this matter.

If you have any questions concerning this response, please contact Carolyn Tavenner Director, Media & Publications at (202) 622-7602.